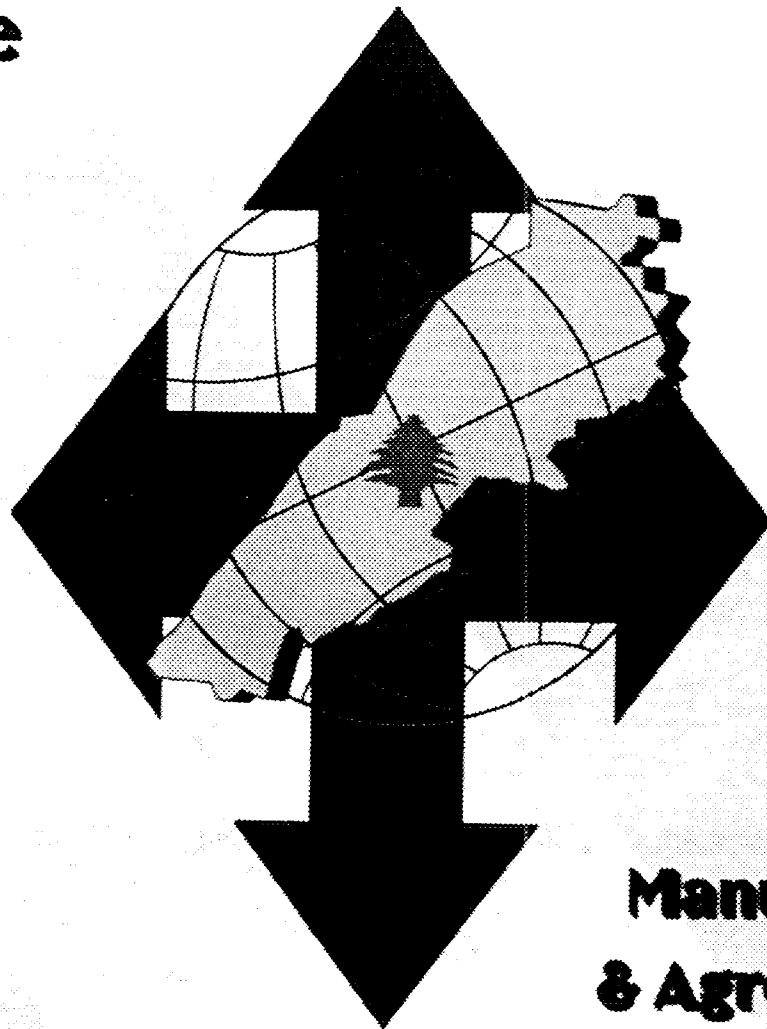


# **Lebanon Agribusiness Import Substitution Initiative**

***Prospectus  
Report***



**Light  
Manufacturing  
& Agro-Industry  
Cluster**



**INFORMATION**  
*International*



**April  
2000**

**USAID**



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# **LEBANON AGRIBUSINESS IMPORT SUBSTITUTION INITIATIVE**

***Prospectus Report***

**Prepared By:  
SRI INTERNATIONAL**

**Project Funded By:  
USAID/LEBANON**

**April, 2000**

## LEBANON AGRIBUSINESS IMPORT SUBSTITUTION INITIATIVE

### A. Current Situation and Agricultural Trade Balance

During recent years Lebanon had a highly negative trade balance; the value of imported agriculture commodities were approximately ten times greater than the value of exports. Between 1996 and 1998 imports of agricultural commodities amounted to US\$1,500 million each year representing about 20 percent of the total imports of Lebanon. Lebanon's negative trade imbalance is much greater than most other emerging market countries. In general, developed countries import about 22 percent more food than they export; while less developed countries are mostly net exporters.

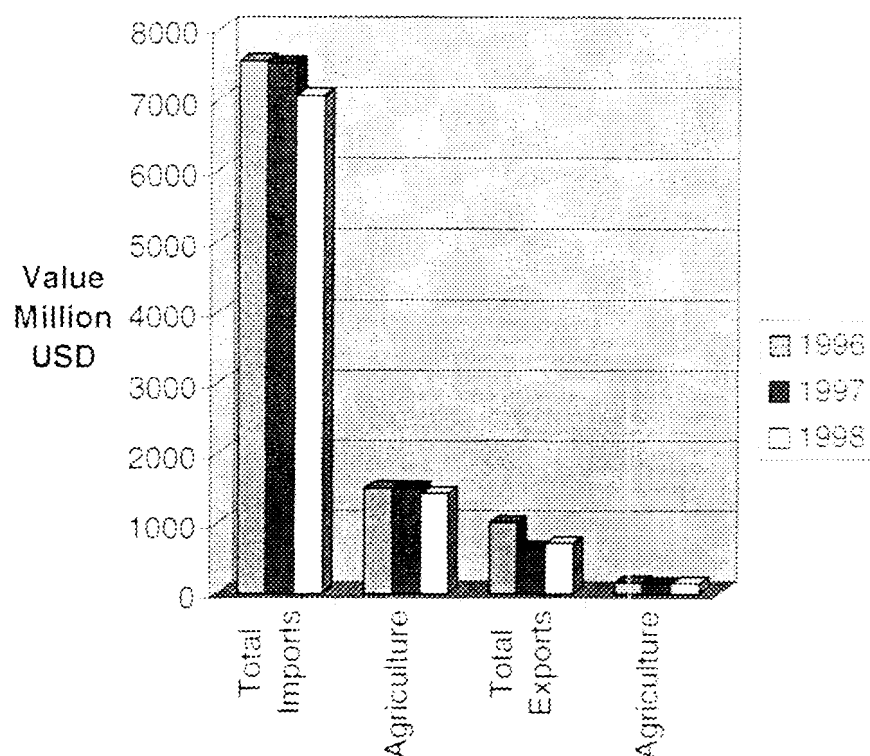
About two-thirds (valued about US \$1,024 million) of the imported agricultural commodities are fresh, or processed foods, or food ingredients. Many of these imported items may be substituted with local products if they meet international standards and offered in competitive price. Food service companies and supermarket chain operations represent very large-scale potential buyers of local food produce.

The major food import items are listed in the table below. Tobacco products are the first most important category of food/agricultural imports in Lebanon. Second in importance is dairy product (milk, cheese, butter, yogurts, etc.). Live animals are third (particularly baby chicks), followed by cereals, edible vegetables, and miscellaneous edible preparations.

A second chart below provides the Lebanese trade balance and agricultural trade balance over the 1996-1998 time period. It should be noted that the total import value exceeded approximately 10 times the export values in 1999 leading to continuous chronic deficit of the balance of trade (Total of Exports-Total of Imports). Based on these data, Lebanon is far from being achieving self-sufficiency or reaching a positive trade balance in the agricultural sector.

<b>Most Important Imported Food/Agricultural Items In Lebanon (1998 in \$US)</b>	
<b>Food Item</b>	<b>\$ Value</b>
Tobacco & Manufactured Tobacco Substitutes	248,220,726
Dairy Produce	161,935,055
Live Animals	142,116,303
Cereals	121,838,761
Edible Vegetables	106,228,257
Miscellaneous Edible Preparations	66,469,142

### Lebanon's International Trade Position (1996-1998)



## B. Constraints to Increasing Local Production

### Policy Constraints

The Lebanese agricultural/agro-industrial sector confronts several developmental problems<sup>1</sup> including:

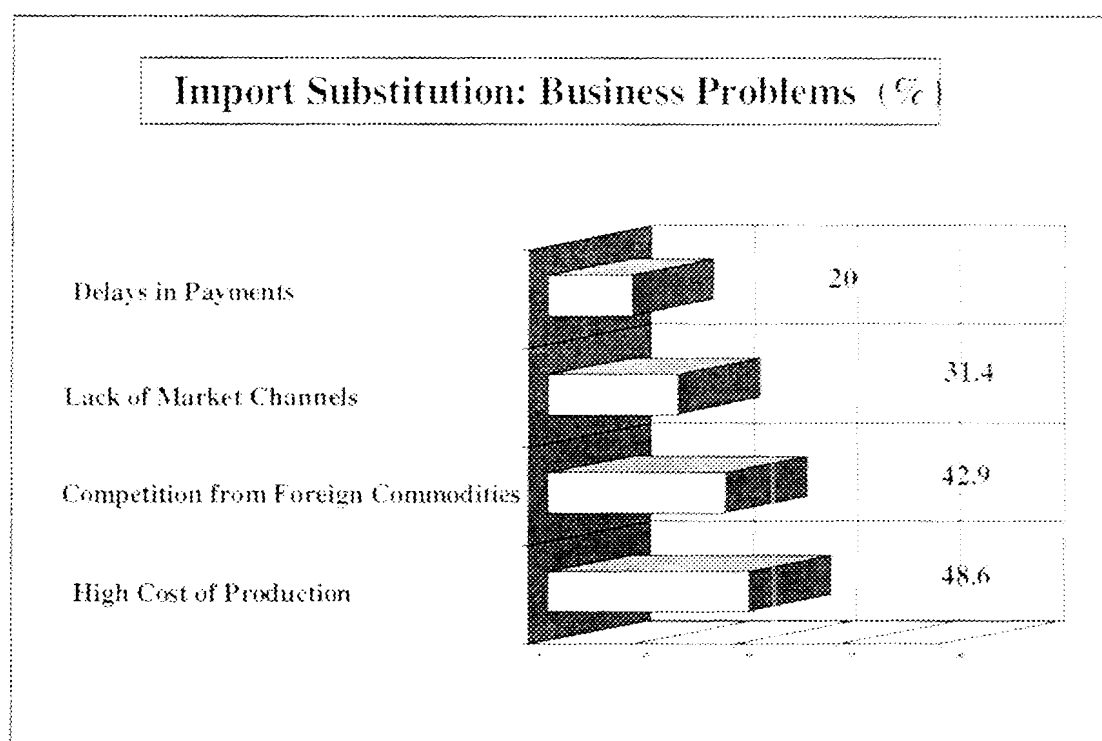
- Lack of sector coordination
- Unclear national policy
- Lack of long-term credit and credit services
- Fragmented internal and external marketing channels
- Technical skills gaps
- High cost and high import duties on imported packaging material
- Poor post-harvest technologies

<sup>1</sup> Lebanon Country Report 1999.

- Inefficient management of land and water use
- Lack of regulation and quality control systems

### Business Related Problems

Among the major business problems reported from a recent survey of agro-industrial companies conducted by Information International includes: the high cost of production, competition from imported commodities, lack of market channels and delays in payments.

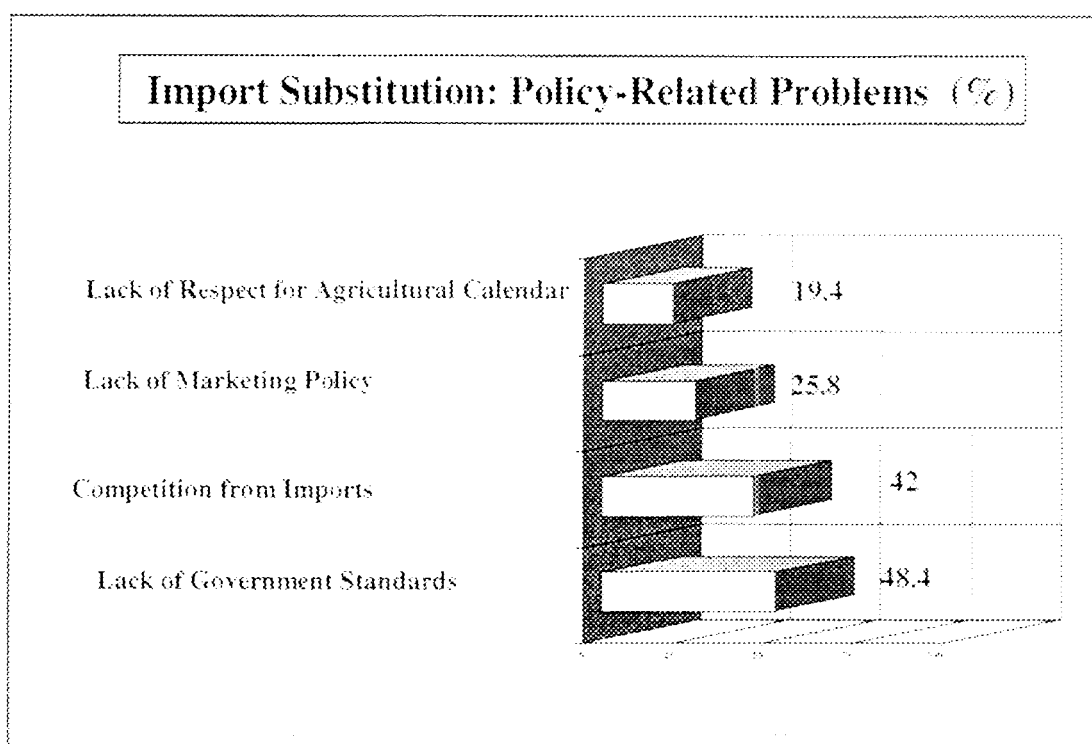


Looking at the specific product categories, vegetables and fruits producers were most concerned with the problem of forced price reductions of its agricultural products. According to the food processing companies, the economic recession, high interest rates, the saturation of the sector, and the governmental taxation laws were the major problems. For poultry producers, the dominant constraints relate to the illegal smuggling of chicken from neighboring countries, and the imposed price ceiling by Ministry of Economy and Trade.

### Policy-Related Problems

The absence of governmental standards was the most important problem faced by agribusiness firms focussed on the local market from the same survey conducted by

Information International. Other problems include the competition from foreign products, and problems regarding the lack of domestic market policy for agricultural products. Finally, the lack of an agricultural calendar rated fourth (target growing and harvesting periods for different crops).



For fruits and vegetable producers, an oversupply of domestic production was among the major problems cited. Poultry producers declared that price ceilings imposed by the Ministry of Economy and Commerce were the major reason for being unable to increase domestic sales, as well as a lack of investment support and other governmental regulations. From the agro-processing companies, a lack of clear agricultural policies was the dominant constraint faced.

### C. Opportunities for Expanding Production for the Local Market

The food-service industry category (terms such as “institutional feeding”, “catering” or “hospitality” are sometimes used) includes establishments primarily engaged in the retail sale of prepared foods and beverages for on-premise or immediate consumption. For many years, the food service industry consisted primarily of small, local diners and cafes. During the past thirty years the industry has grown from family-run restaurants and diners to chain restaurants that operate globally with uniform, but with rather limited range of menus.

### **Food-Away-From-Home, a Growing Global Trend**

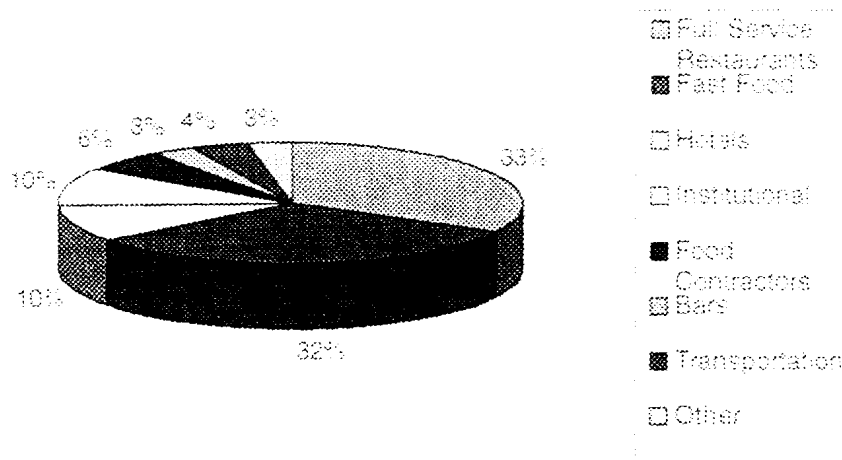
During the 1990s the food service industry especially the fast food segments experienced a very impressive worldwide growth. The following factors contributed to this impressive growth:

- Women's increased role in the workplace has left them with less time to spend preparing food at home and thus convenience became more important.
- The increased number of single-person households.
- The proliferation of fast food and take-out eating places has broadened consumer choice and made eating places a convenient alternative to home cooked food.
- Fast food restaurants, in particular, create the impression of value with menus of low-priced items and specially priced meal packages.

Emerging out of this focus on convenience was an assort of hybrid of the full-service restaurant and fast food outlets offering prepared foods for carryout service termed "home meal replacements" (HMR). Pioneered by Boston Chicken Inc., HMRs allow customers to enjoy freshly cooked foods - reminiscent of home cooking and higher in quality than the typical fast food - conveniently in their own homes without having to eat outside the home. This trend boded well with the proliferation of VCRs, TVs, computers, and other electronic entertainment device in homes around the world.

The classification for eating places encompasses a variety of eating establishments, including full-service restaurants, fast-food joints, casual dining establishments, pizza parlors, airline catering and institutional feeding (hospitals, military, school cafeteria, etc.) to name but a few.

### World Food Service Market - Size of Market Segments in Terms of Purchases



Currently, international food service operators and major supermarket chains are advancing into nations throughout the Middle Eastern countries. Franchised international food companies such as McDonald's, Pizza Hut, KFC, Subway, Hardee's, etc., are progressing now in Lebanon. In addition to international brand names, there are a number of Lebanese brand fast food chains (e.g. Hawa Chickens), which are now participating in this high growth market. The food service supply requires regular daily supplies of a variety of prepared food products.

Food material needs of the Lebanese food service industry and the fast emerging "home-meal-replacement" segment of supermarkets are largely supplied from expensive imported goods. Substitution for imported food product with local products represents a value-added new business opportunity for the Lebanese farmers and food processors, provided they could meet the rigorous price, quality, and delivery requirements of these



operations. Targeted production of key food products for the Lebanese and regional chains represents an attractive investment opportunity for Lebanese producer groups.

### **Food Service Industry Leaders**

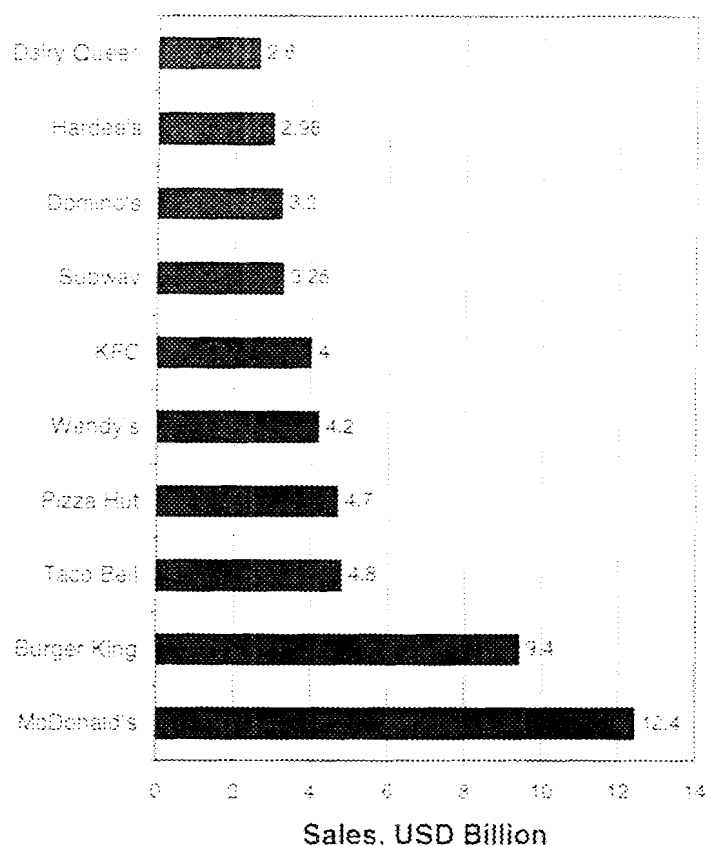
Eating establishments are one of North America's most successful exports. Almost all the industry leaders have a formidable overseas presence. International agreements, such as the General Agreement on Tariffs and Trade (GATT) are expected to increase investment opportunities for fast food companies; it may also increase competition in the industry. Overseas, the fast-food restaurants are generally operated by local businesses of the countries in which they are situated under franchising agreements.

The industry has a clear global leader, the McDonald's Corporation, the largest restaurant company in the world with annual sales of US\$11.4 billion in 1997. McDonald's, the chain with the largest foreign presence has more than 23,000 outlets distributed among 100+ countries. Approximately 34 percent of its sales are in Europe, Africa and the Middle East. While US sales growth has slowed from as high as 20 percent in the 1980s to just over 10 percent annually, overseas growth remains at more than 20 percent.

TRICON Global Restaurants, Inc., which is active in Lebanon a regional franchisee, has four operating companies, KFC (formerly Kentucky Fried Chicken), Pizza Hut, Taco Bell and Tricon restaurants with almost 30,000 units in more than 100 countries, Pizza Hut with 13,000 units operates in 88 countries and KFC with 10,300 units operating in 80 countries. Wendy's International, Inc. is operating 5,400 restaurants in the United States and in 31 other countries. Burger King with 9,700 units, and Subway Sandwiches with 13,000 units are the other leaders in the global arena.

Without exception these franchise restaurants are gaining significant foothold in Lebanon and its neighboring countries as well. For example Pizza Hut presently operating 16 franchise units in Lebanon all owned by the same family. McDonald's, Burger King, and Wendy's recently started aggressive build up of new franchises in Lebanon. The local population is visiting fast food restaurants mainly on special occasions, such as birthday parties, and reunions. In the future the Lebanese restaurants will benefit greatly from the increasing tourist business.

### Leading International Restaurant Chains



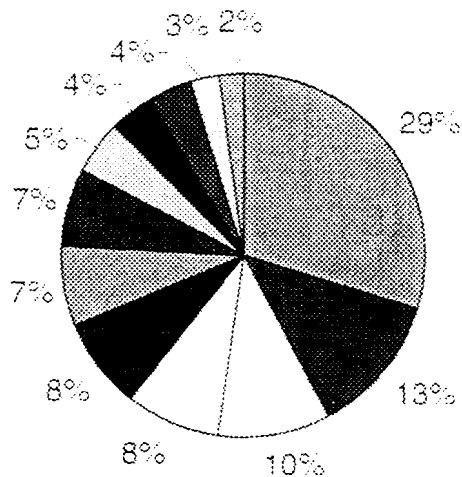
### Food Categories Purchased by Food Franchise Operations

Franchised restaurants are operated under rigid terms. Their menu items including all ingredients are specified by the parent company. At the same time however the franchises benefit from the training, marketing support and the purchasing power of the parent company. To assure food safety standards suppliers to franchises must demonstrate compliance to HACCP and ISO guidelines. The finished products must meet specific company standards that are strictly enforced by quality assurance personnel of the parent company.

The food commodity purchase pattern of the North American food service industry is shown in below. Meat, fish, and poultry represent the highest value of food service purchases. Fruits and vegetables and baked goods are the other leading items purchased by the industry. Because the menus in all fast food restaurants are prepared

according to worldwide standards in those values in the chart below would apply for all regions. In contrast to the largely family owned full-service restaurants that are changing menus frequently to utilize seasonal fresh produce, fast-food outlets require the same raw material all the time in very large quantities, and in partially processed form to assure easy final preparation by inexperienced kitchen personnel.

### FOOD PRODUCTS USED GLOBALLY BY THE FOOD SERVICE INDUSTRY (Percent of Total Value)



- Meat
- Fish and Shellfish
- Fruits and Vegetables
- Poultry and Eggs
- Baked Goods and Cereals
- Sugars and Sweets
- Prepared Entrees
- Sugars and Sweets
- Fats and Oils
- Coffee and Tea
- Soups, Sauces, and Gravies
- Spices and Condiments

### Food Service Opportunities for Lebanese Companies

Presently Lebanese *fast food franchises* purchase mostly imported food items. A few exceptions include a limited variety of fresh vegetables, mushrooms, and poultry that are obtained from local sources. Representatives of the fast food industry indicated their willingness to purchase local supply and are seeking for local suppliers. But they claim that it is difficult to find Lebanese produce that would meet their rigid company standards.

Investments are needed to enable Lebanese food processors to produce a wider variety of food products that will be acceptable to the food service industry. Once a certain food item is approved it would gain a sizeable and growing market in Lebanon and possibly in the neighboring countries as well. The food service companies purchase beef, poultry, sausages, fresh and frozen vegetables, fruit juice, baked goods, and dairy products in large volumes. Following adequate planning, introduction of current process technologies and investments Lebanese producers could offer these products in a short period of time, probably within 2 to 5 years.

An example for an attractive item for local production is mozzarella cheese, a commodity that is easy to produce and represents a very large potential market opportunity because it is a key ingredient of pizza. The 18 unit Lebanese Pizza Hut franchises spend US \$660,000 per year for imported mozzarella from New Zealand. Also, Pizza Hut imports every food items except beer, soft drinks and fresh vegetables from Canada, USA, Ireland and Cyprus. Similarly the single Lebanese airline caterer, LBACC imports all frozen vegetables, meat and dairy products from the United States, Australia and Europe and is seeking local suppliers.

The Lebanese food industry can establish a business relationship with the food service franchises starting with a few items that already have established production in Lebanon, or start with the production of a large volume item that requires simple process technologies and equipment such as the production of mozzarella cheese. Once a supplier relationship with a global food service company is established it could develop into a growing and steady business, and would greatly reduce the negative trade balance of the country.

A second target possibility is the provision of buns and bread to the major chains including Wendy's, Hardee's, McDonald's, and Burger King. Currently the large majority of these restaurants in Lebanon buy their bread and buns in semi-baked form from overseas suppliers. This would be a relatively straightforward investment opportunity for a Lebanese bakery, provided they can meet taste, quality, and price specifications of the fast food chains.

One important development is the beginning of local processing of frozen French Fried potatoes, one of the largest food items in the fast food industry's menu. One Lebanese supplier exists already, and McDonald's began testing potato varieties in Lebanon that would meet their quality requirement. The success of this test could result in a large-volume and regular business and lead to production of additional supplies for McDonalds and possibly for other food service businesses.

Assuming producers can meet the rigorous price, quality and delivery requirements of the major chains, substantial opportunities could be realized in supplying food service units with the following high priority products:

- Pre-cut salads
- Fresh cut fruits
- Fruit juices
- Hamburger patties
- Mozzarella cheese
- Frozen chickens
- Prepared potatoes
- Baked bread and buns.

*Hotels and restaurants* represent another fast growing end-use segment for Lebanese food producers. From 1992 to 1998, the annual increase in the number of tourists visiting Lebanon averaged 25 percent per year, rising from 177,000 visitors in 1992 to 605,000 in 1998. High future growth for tourism is forecast, and investors have invested heavily in hotel construction over the past three years. Hotel room capacity is expected to rise sharply from 14,000 rooms in 1999, to about 20,000 by the year 2002.

Hotels and restaurants interviewed by SRI indicated that the principal products they produce locally include fresh fruits and vegetables locally (including lettuce, potatoes, tomatoes, cucumber strawberries,) poultry and Lebanese specialty products. They rely on significant imports of meat, fish, and exotic vegetables such as broccoli, celery, artichoke, and iceberg lettuce.

### **Food Service Initiative Strategy**

There are four main end-use opportunity segments for import replacement for Lebanese producers, including:

- Supermarkets
- Fast Food Restaurants
- Food Catering Companies
- Hotels/Restaurants

The SRI team has identified high-potential opportunities for each of these four end-use segments. Each of these product areas identified represents business opportunities for Lebanese food producers in the short to medium term. These target products are listed by end-users in the table below.

Opportunities for Increased –Import Substitution						
End Users	Food Groups					
	Dairy	Meat And Poultry	Fresh Fruits and Vegetables	Bread and Baked Goods	Frozen or Canned Fruit and Vegetables	Processed Foods
<b>Supermarket</b>	<ul style="list-style-type: none"> <li>• Yogurt</li> <li>• Butter</li> </ul>	<ul style="list-style-type: none"> <li>• Frozen Pre-Cut Beef and Lamb</li> <li>• Frozen Chicken</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-Cut Salads in Modified Atmospheric Packaging</li> <li>• Fresh Vegetables (Broccoli, Artichoke, Asparagus)</li> </ul>		<ul style="list-style-type: none"> <li>• Full Line of Frozen and Canned Fruits and Vegetables</li> </ul>	<ul style="list-style-type: none"> <li>• Olive Oil</li> <li>• Ready-to-Eat Meals</li> <li>• Snack Foods and Nuts</li> <li>• Salties</li> </ul>
<b>Fast Food Chains</b>	<ul style="list-style-type: none"> <li>• Mozzarella Cheese</li> </ul>	<ul style="list-style-type: none"> <li>• Frozen Hamburger Patties</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-Cut Salads</li> <li>• Fresh Mushrooms</li> <li>• Fresh-Cut Fruits</li> </ul>	<ul style="list-style-type: none"> <li>• Hamburger Rolls</li> <li>• Bread</li> </ul>	<ul style="list-style-type: none"> <li>• French Fries</li> </ul>	<ul style="list-style-type: none"> <li>• Mayonnaise</li> <li>• Sausages</li> <li>• Peppermint</li> </ul>
<b>Food Catering Companies</b>	<ul style="list-style-type: none"> <li>• Yogurt</li> <li>• Cheese</li> <li>• Butter</li> </ul>	<ul style="list-style-type: none"> <li>• Frozen Beef and Lamb</li> </ul>	<ul style="list-style-type: none"> <li>• Pre-cut Salad</li> <li>• Fresh Fruits and Vegetables</li> </ul>		<ul style="list-style-type: none"> <li>• Economical Frozen Vegetables</li> </ul>	<ul style="list-style-type: none"> <li>• Nuts</li> <li>• Patech</li> <li>• Lebanese Specialties</li> </ul>
<b>Hotels/ Restaurants</b>	<ul style="list-style-type: none"> <li>• Fresh Milk</li> <li>• Cheese</li> <li>• Butter</li> </ul>	<ul style="list-style-type: none"> <li>• Frozen Pre-Cut Beef and Lamb</li> </ul>	<ul style="list-style-type: none"> <li>• Iceberg Lettuce</li> <li>• Broccoli</li> <li>• Celery</li> <li>• Asparagus</li> <li>• Hearts of Palm</li> <li>• Fresh Fruits</li> </ul>			<ul style="list-style-type: none"> <li>• Sauces</li> <li>• Gravies</li> <li>• Mayonnaise</li> <li>• Sausages</li> <li>• Lebanese Specialties</li> </ul>

Fast food companies represent one of the fastest growing segments of the market to focus on initially. International fast-food franchises sometimes prefer to procure food items from a food commissary or food brokers takes responsibility for coordinating the supply of food items from local producers. The commissary can effectively serve as a central contact point for both the food franchise and the local producers or producer groups. In some cases the commissary also provides producers with technical advice, access to seed varieties and planting material, and access to other production inputs such as fertilizers and pest controls.

International fast-food franchises normally begin working with local supply contractors on smaller orders, particularly in the fresh fruits and vegetables product areas. These are items that cannot easily be imported from their large European and North American suppliers without product degradation. Building on successful orders of fresh fruits and vegetables from nearby outlets, Lebanese suppliers will have an opportunity to

expand into larger contracts. Eventually, the producers will have the possibility of becoming the preferred supplier for higher volume contracts covering larger geographic areas in nearby countries.

McDonald's Corporation has already been evaluating the suitability of growing a potato variety that would meet their standards for French Fries. If successful, this trial production could result in large volume and regular business and lead to production of additional food supplies to McDonald's and possibly other food service businesses.